

ECONOMIC PULSE

A MONTHLY REPORT ON MARYLAND'S ECONOMY

FEBRUARY 2002

HIGHLIGHTS

Fed Leaves Interest Rates Unchanged

After cutting interest rates 11 times in 2001, the Federal Reserve left interest rates unchanged after its January meeting. The Fed noted positive signs of growth, including GDP growth, but remains cautious.

Jobless Claims Decline and Job Losses Slow

Recent data show that unemployment insurance claims are falling from the levels of third quarter 2001 and the number of layoff announcements is declining.

Manufacturing Shows Positive Signs

Manufacturing, which has been the weakest link in the economy, is showing signs of a comeback. Manufacturing hours and earnings rose in December.

Housing Market is Strong

Maryland's and the nation's housing markets remain strong, with increases in existing home sales in December.

Snapshot Maryland

Although Maryland began experiencing the national economic downturn later than most other states, the slowdown is now evident in most industry sectors. From December 2000 to December 2001, the state lost 11,400 jobs, or 0.5 percent of its job base. The U.S. economic downturn was more severe, with a loss of over 1.1 million jobs — down 0.8 percent. At year-end, 36 states had negative job growth as the national recession engulfed most of the nation (see Focus article).

Manufacturing remains one of the hardest-hit of all industry sectors. There were, however, a few bright spots within manufacturing, especially electronics and instruments production.

Hours and earnings rebounded in Maryland, another sign that the sector could begin to recover soon. Demand from defense and other government sources could provide a much-needed boost to this vital sector. Business services also remains in a downturn, having lost 10,400 jobs during the past twelve months. Another hard-hit sector is retail trade. Some sectors continued to defy the trend — notably, construction, finance, insurance and real estate (FIRE), health services, and government.

In 2001, the consumer kept the economy afloat, as high incomes and low interest rates fueled spending on homes and automobiles. The consumer remains confident as evidenced by survey results and spending. Maryland's housing sector remains strong, and continues to outperform the nation. New and existing home sales rose in 2001. Automobile sales were strong, partly due to the year-end promotions from manufacturers and dealers.

Labor force data have worsened dramatically since the beginning of the year. From December 2000 to December 2001, the labor force grew only 0.2 percent in Maryland and 0.4 percent in the U.S. This is in sharp contrast to the 3 percent to 4 percent growth during the first few months of 2001. Employment by place of residence dropped 0.6 percent in Maryland and fell 1.4 percent in the U.S. The result was that Maryland's unemployment rate rose from 3.3 percent a year ago to 4.1 percent in December 2001. The U.S. rate jumped from 3.7 percent to 5.4 percent (not seasonally adjusted). Other weaknesses of the labor market include a rise in initial unemployment insurance (UI) claims and a drop in the *Baltimore Sun's* help-wanted ads. On the positive side, there was a slight drop in the Temporary Cash Assistance (TCA) caseload, and a significant slowdown in UI claims volume — both nationally and in Maryland.

Labor Market Trends, December 2001

(Percent Change, December 2000 - December 2001)

	MD	U.S.
Growth of Civilian Labor Force	0.2	0.4
Employment by Place of Residence	-0.6	-1.4
Job Growth (by place of work)	-0.5	-0.8
Temporary Cash Assistance – Caseload	-1.1	–
Change in Initial UI Claims	21.3	16.5
Help-wanted Counts	-46.0	–
Unemployment Rate (current month, %)	4.1	5.4

Parris N. Glendening
Governor

Kathleen Kennedy Townsend
Lt. Governor

David S. Iannucci
Secretary

Sandra F. Long
Deputy Secretary

Jobs and Sectors

While overall job growth remained negative in December, some sectors of the Maryland economy continued to grow through the end of 2001. In particular, finance, insurance and real estate added 1,600 net new jobs from December 2000 to December 2001, a 1.2 percent growth rate and twice the national average. Within this sector, depository institutions (which includes commercial banks) posted a 2.5 per-

Percent Change in Jobs

December 2000 - December 2001

	MD	U.S.
Construction	0.5	0.9
Manufacturing	-4.2	-7.2
FIRE	1.2	0.6
TCU	-2.7	-2.7
Trade	-1.7	-0.7
Services	0.2	0.1
Business	-4.8	-5.6
Health	1.6	2.9
Government	1.0	2.2
Total	-0.5	-0.8

cent job growth. Insurance carriers and real estate companies posted a 1.6 percent job growth rate during the past year. Health services added 3,200 net new jobs during the past year — a growth rate of 1.6 percent. The construction sector experienced a modest, but noteworthy gain of 800 jobs — up 0.5 percent.

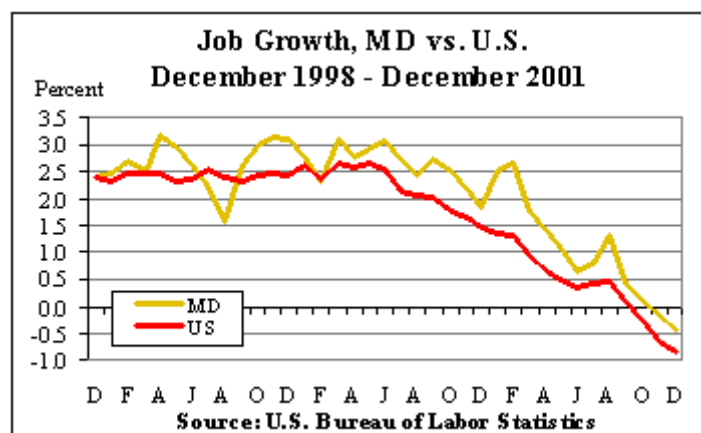
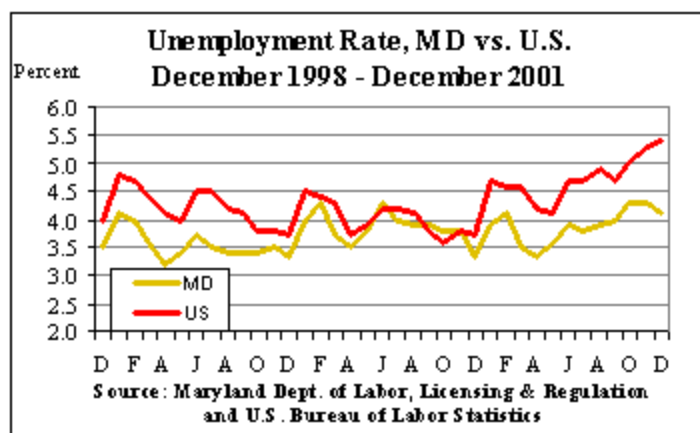
Several sectors, however, remain weak. The manufacturing sector lost 7,600 jobs during the past year, a loss of 4.2 percent. The U.S. manufacturing sector was down 7.2 percent during the same period. Nationwide, this key sector lost 1.3 million jobs during the past year. This sector, however, may be turning the corner. Factory orders could soon rise, as reports on inventory and durable goods orders indicate. Job growth, however, will resume only after manufacturers are confident that the rise in demand is permanent and new investments start

to rise. Both hours worked and earnings in this key sector have risen or stabilized during the past year.

It is worth noting that some manufacturing industries added jobs in spite of the overall downturn in the manufacturing sector. These included: communications equipment, electronic components and instruments and related products — sectors that have a strong presence in Maryland. We expect these sectors to grow in the coming months as defense and other federal contract procurements increase.

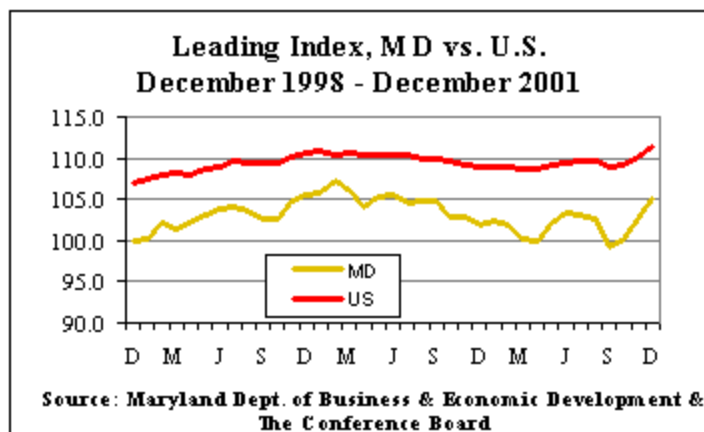
Retail trade lost 9,400 jobs between December 2000 and December 2001, down 2.1 percent. The largest drop was in general merchandise stores (down 6.9 percent), followed by food stores (down 1.6 percent). Transportation, communication and utilities lost 3,300 jobs during the past year (down 2.7 percent). This was due largely to a 5.9 percent drop in jobs at transportation companies. The communications sector had a net gain of 3.9 percent. Finally, business services remains hard-hit — this sector has lost 10,400 jobs during the past year (down 4.8 percent). The U.S. fared no better, having lost 560,000 jobs (down 5.6 percent).

Housing continues to fuel economic activity — directly and indirectly — both in the U.S. and in Maryland. Existing home sales rose 4.5 percent in Maryland and 4.9 percent in the U.S. during the past year. New home construction has also remained strong in 2001, due to high income levels and low mortgage interest rates. Automobile sales were strong at year-end, as sales jumped 8.2 percent in Maryland and 7.1 percent in the U.S. during the December 2000-December 2001 period. Permits for new residential units, however, fell in December after posting strong gains in the previous months.

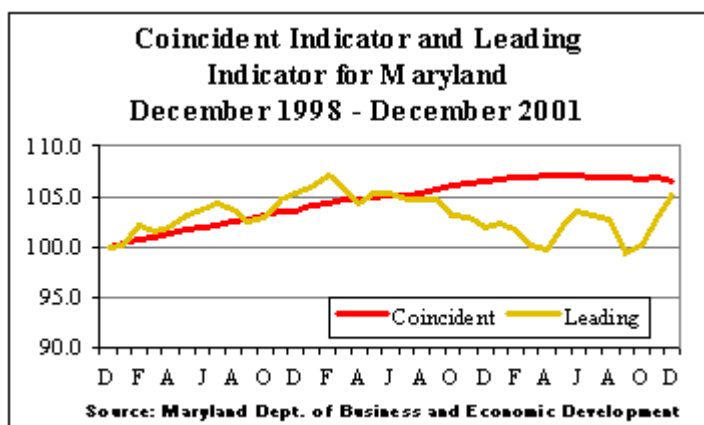


Maryland Leading and Coincident Indices

The *Maryland index of leading indicators* increased to 105.1 in December, up from 102.8 in November. The leading index was also up by 3.2 percent from a year ago. Four of the seven Maryland components provided a positive influence in December, while all three of the national components contributed a positive impact in December. The December reading marks the third consecutive gain and points to some strengthening in the economy down the road, if the trend is maintained. The national leading index rose by 1.2 percent in December, and was also up 2.4 percent from a year ago. The continued increase in the index, for the third consecutive month, bodes well for the U.S. economy and suggests that the weakness is receding. Analysts are optimistic that the recession will be brief, due in part to improvement in a broader range of components within the indicator.



The *coincident index* stood at 106.6 in December, down 0.2 percent from the previous month and virtually unchanged from a year ago. As recently as September 2001, growth from a year ago was about 1 percent. However, the increase from last year has decelerated rapidly in the last quarter. The indicator appears to have peaked in June 2001 and is down



0.5 percent from that month. Nevertheless, the Maryland economy appears to be somewhat resilient in comparison to the nation. While the U.S. coincident indicator was up 0.1 percent from the previous month, the national index was down 1.0 percent from a year ago.

Maryland Leading Composite Index

Year	Month	Index	Percent Change
1998	Dec	100.0	1.69%
1999	Jan	100.2	0.19%
1999	Feb	102.1	1.87%
1999	Mar	101.5	-0.59%
1999	Apr	102.0	0.54%
1999	May	103.1	1.06%
1999	Jun	103.7	0.57%
1999	Jul	104.2	0.47%
1999	Aug	103.6	-0.57%
1999	Sep	102.5	-1.01%
1999	Oct	102.8	0.27%
1999	Nov	104.8	1.97%
1999	Dec	105.4	0.52%
2000	Jan	105.9	0.49%
2000	Feb	107.1	1.17%
2000	Mar	106.0	-1.03%
2000	Apr	104.3	-1.65%
2000	May	105.3	1.00%
2000	Jun	105.4	0.07%
2000	Jul	104.7	-0.67%
2000	Aug	104.8	0.11%
2000	Sep	104.8	-0.02%
2000	Oct	103.0	-1.69%
2000	Nov	102.8	-0.19%
2000	Dec	101.9	-0.88%
2001	Jan	102.2	0.31%
2001	Feb	101.8	-0.44%
2001	Mar	100.2	-1.51%
2001	Apr	99.9	-0.37%
2001	May	102.1	2.22%
2001	Jun	103.4	1.26%
2001	Jul	103.1	-0.28%
2001	Aug	102.8	-0.32%
2001	Sep	99.3	-3.42%
2001	Oct	100.2	0.94%
2001	Nov	102.8	2.62%
2001	Dec	105.1	2.26%

Source: Maryland Department of Business and Economic Development

Update on the U.S. Recession

The Federal Reserve surprised many when it left interest rates unchanged after its January meeting. In each of its previous sessions, the Fed had cut key interest rates. It did so 11 times in 2001, driving interest rates down from 6.5 percent to 1.75 percent. Does that mean that the U.S. economy has reached bottom and is about to start a recovery? That is hard to tell. Peaks and troughs of an economic cycle are always difficult to judge accurately.

To some analysts, the surprising, positive GDP growth during the fourth quarter was an indication that the worst was over. But, the nation's economic weaknesses remain a concern, especially for the Federal Open Market Committee. When the recession began in March 2001, GDP and jobs were still growing. The recession-dating was not based on the standard, old definition of two consecutive quarters of negative GDP growth; rather, it was based on significant weaknesses in the industrial (manufacturing) sector of the economy. This sector still remains weak, although recent data show some improvement in the condition of the nation's manufacturing sector. Until and unless this key sector returns to good health, the economy will remain weak and the recession will likely linger.

The weaknesses in the manufacturing sector go beyond the loss of jobs. Demand for U.S. made goods remains weak — at home and abroad. The investment in technology and equipment that led to strong productivity gains in manufacturing in the mid-90's has weakened. That is good reason to be cautious. In other words, we won't see a V-shaped recovery, or even a U-shaped one. Most likely, this recovery will be slow and gradual.

While the economy remains weak, plenty of mixed signals dominate the economic scene. The nation's seasonally adjusted unemployment rate fell in January, while claims for unemployment insurance have started declining. Underlying both is a disturbing fact: the number of job seekers has dropped. The number of layoffs declined in January from the previous month. Again, however, the low layoff rate was due to weak holiday-season hiring and not many jobs were created in December. The nation's GDP rose by 0.2 percent during the fourth quarter of 2001 — after falling in the third quarter. The good news is that housing and consumer spending keep fueling economic activity, and the transportation sector is returning to normal after the tragic events of September 11.

Other Economic Indicators

- Maryland's job growth remained negative in December 2001, falling 0.5 percent from the same period last year. The U.S. lost 0.8 percent of its jobs during that one-year period.
- Only 14 states and the District of Columbia had positive job growth in December compared with year-ago levels. While Maryland had two months of negative job growth, most neighboring states fared worse.
- During 2001, Maryland had an average job growth rate of 1.0 percent (17th highest in the nation) — compared with a national average of 0.3 percent. Six states experienced negative average job growth in 2001: Michigan, Missouri, Alabama, Oregon, Indiana and Mississippi.
- Maryland's unemployment rate fell slightly in December, but was up from the level of a year ago. In December, the state had an unemployment rate of 4.1 percent, compared with 4.3 percent in November and 3.3 percent in December 2000. The nation's unemployment rate stood at 5.4 percent in December 2001 (not seasonally adjusted).
- Although claims for UI remain high compared with year-ago levels, the number of claims may be leveling off.
- Initial claims for UI rose 21 percent in Maryland and 17 percent in the U.S. during the past year.
- TCA caseload appears to have stabilized, falling 1.1 percent in Maryland during the December 2000 to December 2001 period.
- The *Baltimore Sun's* help-wanted counts remained 46 percent below the level of a year ago.
- Average weekly hours in Maryland rose to 40.9 in December 2001 from 40.5 in December 2000. Earnings rose 2.8 percent during the past year. While not yet a trend, this is some good news for this hard-hit sector.
- Existing home sales rose 4.5 percent in Maryland and 4.9 percent in the U.S. during the past year. Permits for new residential units, however, fell 15 percent in December after rising 4.6 percent in November.
- The Maryland stock index stood at 217.0 in December 2001, only 4.2 percent below the level of last year.
- Automobile sales continue to remain strong. New auto registrations rose 8.2 percent in Maryland and 7.1 percent in the U.S. during the December 2000-December 2001 period.

FOCUS: Job Growth in 2001

After record growth from 1997 to 2000, most states saw job growth decline sharply in 2001. In spite of the national recession that began in March 2001, several states registered strong growth for the entire year. The best-performing states were Nevada, Florida, Wyoming and Texas — in that order. Each of these states had a job growth rate of 2.0 percent or better. Nevada, which has a small job base, led all states with a whopping 3.4 percent job growth in 2001. This is remarkable given that the national average job growth rate for 2001 was only 0.3 percent.

It is interesting to note that while in January 2001 all states except Mississippi had positive job growth, by December 2001, only 14 states and the District of Columbia registered

positive job growth. Even in March 2001, when the U.S. recession began, only two states (Mississippi and Indiana) reported negative job growth. As noted in previous reports, the recession was called not because of negative growth of GDP or jobs, but because the manufacturing sector was extremely weak. There are indications that this key sector is making somewhat of a turnaround.

Several states registered negative job growth in 2001 as their economies remained mired in a recession. This list included: Michigan, Missouri, Alabama, Oregon, Indiana and Mississippi. Maryland had a job growth rate of 1.0 percent for the year, which ranked the state 17th in the nation in job growth.

FOCUS: A Jobless Recovery?

Contrary to the notion that productivity generally moves with the business cycle, rising as the economy expands and easing as the economy contracts, recent data show that productivity continues to increase despite the downturn in the economy. In third quarter 2001, output per hour in the non-farm business sector rose at an annual rate of 1.1 percent, while the real gross domestic product (GDP) dropped by 1.3 percent. In fourth quarter 2001, productivity showed a sizable gain of 3.5 percent, compared to a nearly stagnant (0.2 percent increase in) real GDP. To some extent, the data supports the view that technological improvements have created a structural shift, or sustainable change, that will not simply fade away as the economy moves through the business cycle. But cyclical forces also appear to be at work as companies have moved quickly to reduce their workforce in response to sagging demand. Nevertheless, the ongoing rise in productivity is welcome news for the beleaguered business sector that desperately needs to see improved profitability before they can significantly boost capital expenditures or hire more workers.

It is conceivable, however, that the gains in productivity may serve to restrain job growth as the economy recovers. For one thing, business expectations about future growth prospects have almost certainly been lowered. The exuberance that was once associated with stock prices racing to lofty heights has been deflated, especially in the technology sector, prompting companies to reevaluate their business plans and cut their workforce. In addition, businesses may choose to hold off on hiring new workers and squeeze more output from their current employees until an economic recovery is

well underway. Businesses may also turn to temporary workers to meet their near-term requirements rather than expanding their permanent staff.

The weakness in the labor market is also being fueled by the economic slowdown, as well as any lingering effects resulting from the events of September 11, which has resulted in some firms going under and prompting others to move aggressively to reduce their workforce. Unfortunately, there are no signals of a strong recovery in the near term. Consumer spending may be held in check by weak prospects for employment growth. In addition, the fallout from the Enron accounting scandal appears to have added to any uncertainty in financial markets. There is serious concern about the accounting practices of financially struggling firms, and this concern could raise the costs of corporate borrowing.

Other national economies are experiencing weak conditions as well, reducing the prospects for export growth. And an economic stimulus package appears to be on hold because Congress has not been able to come to a compromise agreement. The only significant fiscal stimulus is coming from increased defense and security spending, which would benefit defense-related industries. Finally, while the Federal Reserve left the door open for additional easing of interest rates, policymakers are likely to be close to the end of lowering rates. As a result, analysts expect the unemployment rate to climb in the near term. A slow and gradual recovery will mean little or no job growth for much of 2002.

Selected Monthly Economic Indicators

	Maryland					U.S.				
	Dec	Nov	Percent Change	Dec	Percent Change	Dec	Nov	Percent Change	Dec	Percent Change
Selected Indicators	2001	2001	From Last Month	2000	From Last Year	2001	2001	From Last Month	2000	From Last Year
Labor Market										
Labor Force (U.S. in Thousands)	2,868,186	2,896,296	-1.0	2,861,507	0.2	141,912	141,911	0.0	141,319	0.4
Employment (U.S. in Thousands)	2,749,383	2,772,439	-0.8	2,766,311	-0.6	134,235	134,359	-0.1	136,092	-1.4
Unemployment Rate	4.1	4.3	-4.7	3.3	24.2	5.4	5.3	1.9	3.7	45.9
Sun Help-Wanted Counts, Baltimore MSA	12,290	13,198	-6.9	22,760	-46.0					
Initial Claims for Unemployment Insurance	29,010	23,444	23.7	23,909	21.3	2,249,511	2,061,402	9.1	1,930,327	16.5
TCA Caseload	30,326	30,846	-1.7	30,660	-1.1					
TCA Cases Closed	2,612	3,101	-15.8	2,677	-2.4					
Jobs and Sectors										
Total Non-Agricultural Employment (Thousands)	2,488.0	2,490.3	-0.1	2,499.4	-0.5	132,128	132,435	-0.2	133,234	-0.8
Construction (Thousands)	157.1	158.4	-0.8	156.3	0.5	6,736	6,938	-2.9	6,676	0.9
Manufacturing (Thousands)	171.5	172.6	-0.6	179.1	-4.2	17,071	17,187	-0.7	18,389	-7.2
FIRE (Thousands)	140.1	140.0	0.1	138.5	1.2	7,613	7,615	0.0	7,565	0.6
TCU (Thousands)	117.4	116.0	1.2	120.7	-2.7	6,980	6,998	-0.3	7,172	-2.7
Trade (Thousands)	562.6	560.3	0.4	572.2	-1.7	30,976	30,737	0.8	31,179	-0.7
Services (Thousands)	873.2	877.4	-0.5	871.1	0.2	40,800	40,942	-0.3	40,770	0.1
Business (Thousands)	208.2	210.0	-0.9	218.6	-4.8	9,423	9,502	-0.8	9,983	-5.6
Health (Thousands)	203.3	203.3	0.0	200.1	1.6	10,497	10,469	0.3	10,197	2.9
Government (Thousands)	464.6	464.1	0.1	460.1	1.0	21,389	21,447	-0.3	20,936	2.2
Average Weekly Earnings (\$)	634.36	627.00	1.2	616.82	2.8	627.35	613.35	2.3	607.34	3.3
Average Weekly Hours	40.9	40.9	0.0	40.5	1.0	41.3	40.7	1.5	41.4	-0.2
Business and Consumer Markets										
BWI Cargo (Metric Tons)	19,115	18,242	4.8	18,327	4.3					
BWI Passengers (Millions)	1.44	1.54	-5.9	1.56	-7.3					
Electric Meters Installed, Commercial	137	185	-25.9	241	-43.2					
Electric Meters Installed, Residential	764	1,241	-38.4	1,149	-33.5					
Electricity Sales, Commercial (Millions of kWh)	1.44	1.46	-1.5	1.62	-10.9					
Electricity Sales, Residential (Millions of kWh)	0.99	0.79	25.1	1.30	-23.4					
Existing Home Sales (US in Thousands)	6,075	6,168	-1.5	5,816	4.5	404	401	0.7	385	4.9
New Auto Registration	28,222	33,641	-16.1	26,072	8.2	1,374,333	1,444,153	-4.8	1,283,771	7.1
New Residential Permits Authorized	1,867	2,233	-16.4	2,202	-15.2	109,792	119,964	-8.5	100,607	9.1
Indexes										
Leading Index	105.1	102.8	2.3	101.9	3.2	111.4	110.1	1.2	108.8	2.4
Help-Wanted Index	54.9	58.9	-6.9	101.6	-46.0	46	45	2.2	78	-41.0
CPI	N/A	110.9	N/A	N/A	N/A	176.7	177.4	-0.4	174.0	1.6
Stock Index	217.0	208.3	4.2	226.4	-4.2	1,148.1	1,139.4	0.8	1,320.3	-13.0
Tourism										
Hotel/ Motel Occupancy Rate (%)	43.7	56.7	-22.9	46.1	-5.2					
State Welcome Center Visitors	134,917	148,089	-8.9	114,895	17.4					
Amusement & Admission Tax (Millions of Dollars)	3.04	3.12	-2.6	2.67	13.6					
Hotel /Motel Sales Tax (Millions of Dollars)	3.34	4.05	-17.4	3.48	-3.8					

Notes:



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David S. Iannucci, Secretary, Department of Business and Economic Development
Sandra F. Long, Deputy Secretary, Department of Business and Economic Development
Rhonda Ray, Assistant Secretary, Office of Economic Policy and Legislation

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Office of Economic Policy and Legislation
Editor, Phyllis S. Cloud
Editorial Assistance, James R. Moody
Project Development, Fereidoon Shahrokh
Contributing Editors, Pradeep Ganguly, Roger Fujihara
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Please address any questions or comments to Pradeep Ganguly, 410-767-6398
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